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FISCAL IMPACT STATEMENT

LS 7859
BILL NUMBER: HB 1680

NOTE PREPARED: Jan 27, 2007
BILL AMENDED:

SUBJECT: Universal Health Care.

FIRST AUTHOR: Rep. Brown C
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
X FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill creates a plan of health insurance to provide primary coverage to every resident of Indiana. The bill creates the Health Insurance Commission to administer the plan. It specifies minimum benefits that the Commission must provide.

The bill also creates the Health Insurance Trust Fund from which covered health services and expenses of the Commission would be paid. The bill raises taxes on tobacco products and alcoholic beverages. The bill also imposes certain payments on individuals and employers.

The bill provides that the Commission is not required to provide for coverage of insured services before the later of January 1, 2008, or the date the Commission has received appropriate federal approvals, assurances, or waivers that the Medicare, Medicaid, and veterans health programs can be integrated with the plan and that the plan can be implemented notwithstanding the Employee Retirement Income Security Act. It also makes an appropriation to the Commission.

Effective Date: July 1, 2007.

Summary of Net State Impact: *Summary* - This bill creates the Health Insurance Plan which is estimated to cost approximately $27.3 B once the program is operational for an entire year and will not begin earlier than January 1, 2008. New revenue generated by the Cigarette Tax increase are estimated at approximately $98.5 M for FY 2008. New Alcoholic Beverage taxes are estimated to generate approximately $89.0 M for FY 2008. There would also be reduced state expenditures for health benefits provided to state employees of at least $300 M annually and approximately $2.0 B for the state share of non-nursing home Medicaid expenditures.

Revenue sources for the Plan include those listed in the following table.

Revenue Sources	Dollars
Copayments from Insured	$3.0 B
Medicaid	$3.3 B
Employers/Individuals	$19.8 B
Tobacco Tax	$0.104 B
Alcoholic Beverage Tax	$0.091B
Total	**$26.3 B**

Alcoholic Beverage Tax increases to fund the Plan are estimated to impact the following funds.

Funds Receiving Distributions	FY 2008 (in millions)	FY 2009 (in millions)
General Fund	($0.9)	($1.3)
Post War Construction Fund	($1.0)	($1.4)
Enforcement & Administration Fund	($0.1)	($0.2)
Addiction Services Fund	($0.1)	($0.1)
Pension Relief Fund	($0.2)	($0.3)
Wine Grape Market Development Fund	($0.0)	($0.1)
Health Care Trust Fund (established in the bill)	$91.3	$99.3
TOTAL	**$89.0**	**$95.9**

Tobacco Tax increases to fund the Plan are estimated to impact the following funds.

Fund	FY 2008 (in millions)	FY 2009 (in millions)
General Fund	($4.6)	($4.8)
Mental Health Fund	0.0	0.0
Cigarette Tax Fund	(0.4)	(0.4)
Pension Relief Fund	(0.5)	(0.5)
Health Care Trust Fund	104.0	105.4
TOTAL	**98.5**	**99.7**

The bill also creates the Health Insurance Commission for purposes of implementing the Plan. The bill appropriates $49,000 from the state General Fund to carry out the Commission's duties beginning January 1, 2008, and ending December 31, 2010. The Commission will likely need additional expenditures to fund its purposes; however, those expenditures will depend on administrative action and currently are unknown.

Explanation of State Expenditures: *Details of the Bill -*

Health Insurance Plan: The bill establishes the Health Insurance Plan to provide insurance against the cost of health care services on uniform terms and conditions available to all residents of Indiana.

An individual who is a resident of Indiana is entitled to become an insured upon application to the Commission. A dependent of an insured who is not a resident is also entitled to become an insured upon application to the Commission.

Persons insured under the Plan are entitled to: (1) reimbursement for payment the insured makes for insured services if the services are provided outside of Indiana, (2) payment on behalf of the insured for insured services; (3) the provision of insured services.

The Plan must cover a service provided to an insured, regardless of the eligibility of the insured for Medicare, if the same service would be covered by Medicare if provided to an individual eligible for Medicare. In addition, the Plan must cover: (1) colorectal screening; (2) home care for certain insured persons; (3) hospice care; (4) immunizations; (5) mammography; (6) postpartum care; (7) prenatal care; (8) reproductive health care; (9) substance abuse rehabilitation; (10) early periodic screening, diagnosis, and treatment; and (11) treatment for musculo-skeletal disorders. The Plan may not cover: cosmetic surgery other than reconstructive surgery, reports for life insurance or legal purposes, and basic care in a nursing home.

Total Estimated Costs: Estimates by the Centers for Medicare and Medicaid Services (as reported by the Kaiser Family Foundation) indicate that health care spending in Indiana for FY 2004 and inflated to FY 2008 values was as described in the table below. [*Note*: While the Medicare population is to be incorporated into the Plan once federal approval is obtained for directing Medicare dollars to the Plan, a preliminary estimate for Plan expenditures and funding was obtained by excluding the Medicare population and funding. The figures below assume that persons aged 65 years and older will be served under the federal Medicare program until federal approval is obtained. Thus, Medicare expenditures were subtracted from the total expenditures reported.]

Distribution of Health Care Expenditures by Service, FY2008 (Est'd) (in millions)	
Service	**Spending**
Hospital Care	$14,683.0
Physician & Other Professional Services	10,713.0
Prescription Drugs	5,184.0
Home Health Care	597.0
Other Medical Nondurables	584.0
Medical Durables	549.0
Other Personal Health Care	1040.0
Total	$33,350.0
Medicare Expenditures	(6,062.0)
Total	**27,288.0**
Notes: (1) Should the Health Insurance Commission elect to provide coverage for health care not listed above, total expenditures for the program would be higher. (2) Additional costs may be incurred should persons aged 65 and older elect to receive dental coverage, with the exception of orthodontia, under the bill. The bill requires the service to be provided to persons in that age category. Medicare pays for dental services that are an integral part either of a covered procedure, or for extractions done in preparation for radiation treatment for neoplastic diseases involving the jaw. The state would be responsible for paying for dental services which are not covered under Medicare and are not considered orthodontia services. The cost to do so is not known.	

Revenue Sources for the Plan -

Copayments: Under the bill, an insured receiving a covered service is required to pay a copayment. The dollar amount of a copayment for a service received by an insured is specified in the bill and is based on the insured's adjusted gross income as a percentage of the federal poverty level.

Based on U.S. Census population and income distribution estimates, there are about 4.56 million people under the age of 65 living in Indiana. The average family size is about 3.04. In addition, there are roughly 700,000 single individuals. It is estimated that the single and family populations have family incomes distributed in accordance with federal poverty guidelines as specified in the table below. The estimates are based on 2006 federal poverty levels and, for the family population, assume the federal poverty levels of a family of three. Given the population estimates below, and the maximum copayments provided under the bill, copayments are estimated to be approximately $3 B annually.

Distribution of Single and Family Population by Federal Poverty Level (in millions)		
% of 2006 Federal Poverty	**Single Population**	**Family Population**
100% or less	0.11	0.36
100% - 200%	0.16	0.88
200% - 300%	0.13	0.73
300% - 400%	0.09	0.69
400% - 500%	0.07	0.55
500% - 600%	0.03	0.42
600% - 700%	0.03	0.16
700% - 800%	0.03	0.16
Over 800%	0.05	0.61
Total	**0.70**	**4.56**

Medicaid: The Family and Social Services Administration (FSSA) reports that it projects its budget for Medicaid (minus nursing home costs which are not provided for under the bill) to be approximately $5.4 B during SFY 2008, of which approximately $2.1 B represents state share of expenditures. It is assumed that both state and federal Medicaid dollars would be transferred to the Fund for payment of services under the Plan.

Tobacco and Alcohol Taxes: As proposed, revenue from the Cigarette Tax and Alcoholic Beverage Tax would be deposited in the Fund to provide for payments under the Plan. Total deposits are estimated to be $195 M for FY 2008 (see *Explanation of State Revenues*).

Employer and Individual Fees: The Health Insurance Commission is required to determine the costs of the Plan that are not reimbursed from taxes, grants, contributions, copayments, and other sources and provide for the assessment of health fees to: (1) employers that employ individuals who reside in Indiana; and (2) individuals who reside in Indiana and have adjusted gross income for the taxable year in which the health fee is imposed; that are sufficient to cover the unreimbursed cost of the Plan after the application of all credits. Fees may not be imposed on an individual who has an adjusted gross income that is less that 100% of the federal poverty level. Fees are estimated to be $19.8 B annually for employers and individuals. [*Note*: These figures could potentially be reduced should additional federal funding be approved for use. In addition, the United States Department of Veterans' Affairs estimates that there are approximately 341,000 veterans under the age of 65 in Indiana. Potentially some of these persons would be eligible for full or partial health care coverage from the Veterans' Administration. Should this occur, expenditures for the Plan would be further reduced.]

The table below presents the breakout of dollars for the estimated cost of the Plan.

Revenue Source	Dollars
Copayments from Insured	$3.0 B
Medicaid	$3.3 B
Employers/Individuals	$19.8 B
Tobacco Tax	$0.104 B
Alcohol & Beverage Tax	$0.091 B
Total	**$26.3 B**

Health Insurance Commission: The Health Insurance Commission consists of 27 members and is required to meet at least one time every month. The bill appropriates $49,000 from the state General Fund to carry out the Commission's duties beginning January 1, 2008, and ending December 31, 2010.

Duties: The Commission is responsible for administering the Health Insurance Coverage Act. The Commission is required to adopt rules to implement the Act, including rules to establish: (1) Plan benefits; (2) terms and conditions of coverage; (3) annual expenditure targets for fee-for-service providers; (4) allowable expenses that must be included in global capital budgets for: (a) institutional providers of inpatient care services, (b) ambulatory care facilities for diagnosis, treatment, and care; (5) standards and procedures for negotiating and entering into contracts with participating providers; and (6) other elements of the Plan the Commission considers necessary. However, the Commission is not required to provide for coverage of insured services before the later of the following: (a) January 1 of the year after the state has obtained appropriate approvals, assurance, or waivers from the federal government, or (2) the Budget Agency determines that there are sufficient federal, state, and local funds to operate the Plan.

The Commission is required to provide for enrollment and determine eligibility of individuals in the Plan and may provide for an individual who is not otherwise entitled to become an insured upon payment of appropriate charges by or for the individual. It is required to determine whether particular health care services not listed in the Plan are to be insured services.

The Commission is allowed to process claims: (1) through the Commission's own staff, or (2) through a fiscal agent with which the Commission contracts. The term of a contract may be for a period of not more than three years.

The bill requires the Budget Agency to identify all federal programs that provide federal money for payment of insured services. The Governor is then required to direct the appropriate state agency to apply to the federal government for waivers of the requirements of any federal programs identified by the Budget Agency to enable the state to deposit money provided by that program in the Fund. The Commission is required to enter into appropriate agreements with or obtain necessary waivers from the federal government to extend coverage of the Plan to as many residents of Indiana as possible.

The bill allows the Commission to enter into an agreement for payment to a provider that renders insured services to an insured on a basis other than a fee for service. As proposed, representatives of each provider specialty are required to negotiate a fee-for-service rate of reimbursement annually with the Commission. In addition, hospital and institutional providers shall annually negotiate an operating budget with the

Commission. Independent providers and noninstitutional providers are to be reimbursed on a fee-for-service schedule. The bill also requires the Commission to increase the negotiated fee schedule of a provider to 115% of the schedule established for a provider's provider category if a provider practices in an underserved area.

The Commission is required to report to the General Assembly and the Legislative Council regarding the quality of health care in Indiana and the Commission's efforts to contain health care costs and must make recommendations to the General Assembly regarding revenue necessary for operation of the Plan. The Commission and the Budget Agency are also required to report to the Budget Committee and the Governor prior to July 1, 2009, concerning funding of the Plan. Furthermore, if all approvals, assurances, or waivers have not been obtained prior to October 1, 2009, the Commission is required to make appropriate recommendations to the 2010 regular session of the General Assembly for legislation to modify or, if necessary, repeal the Plan.

Before January 1, 2011, the Commission is required to: (1) establish or contract for the managed care of individuals who have a catastrophic, chronic, or terminal, illness which includes a managed care capitation fee arrangement with the provider to furnish all medically necessary care; and (2) present a proposal to the General Assembly for inclusion of coverage of long-term care in the Plan.

The Commission is required to: (a) promote development of uniform health claim cards readable by electronic card readers; and (b) provide public education on the quality and cost of health care so that consumers can make informed health care decisions.

Staff: The Commission is required to employ an Executive Director who is the Chief Administrative Officer of the Commission. The Executive Director is required to perform the duties required by the Act and implement the policies of the Commission. The Executive Director is allowed to hire staff for the Commission. The expenses of the Commission are to be paid from the Health Insurance Trust Fund.

The bill requires the Commissioner of the Indiana State Department of Health (ISDH) to serve as a temporary Executive Director until the Commission has employed a full-time Executive Director. In addition, the ISDH is required to provide staff for the Commission during that time period as well.

Reimbursement: Members of the Commission who are not state employees are entitled to a minimum salary per diem under IC 4-20-11-2.1(b) of $35. Currently, this statute is overridden by Section 15 of the budget bill which provides a higher reimbursement of $50. It should be noted that should the budget bill dictate a different amount of reimbursement in the future, or not address reimbursement, this reimbursement level could change. Members are also entitled to reimbursement for traveling expenses and other expenses actually incurred in connection with the member's duties. Members of the Commission who are state employees and not a member of the General Assembly are entitled to reimbursement for traveling expenses and other expenses actually incurred in connection with the member's duties. Members of the Commission who are also members of the General Assembly are entitled to receive the same per diem, mileage, and travel allowances paid to members of the General Assembly serving on interim study committees established by the Legislative Council. Expenses paid to reimburse members are to be paid from the Health Insurance Trust Fund.

The bill requires each voting member of the Commission to attend at least one health care educational seminar annually. In addition, a nonvoting member of the Commission is entitled to have the reasonable costs of attending one health care educational seminar each year. Expenses for voting and nonvoting members to

attend the seminars are to be paid from the Health Insurance Trust Fund.

Health Care Claims Review Committee: The bill requires the Commission to appoint a Health Care Claims Review Committee consisting of 15 members. Members of the Committee are to be paid for services as determined by the Commission. The Commission is required to provide support and administrative services to the Committee and adopt rules to specify procedures for the Committee.

The Committee is created to make recommendations to the Executive Director regarding a matter referred to the Committee, including recommending that the Executive Director to take any of the following actions: pay a claim, not pay a claim, reduce the payment of the amount of a claim, or require reimbursement of an overpayment made on a claim. Recommendations of the Committee are subject to review by the Commission.

Audit Division: The Executive Director is required to establish an audit division. The audit division is required: (1) to examine books, accounts, and reports of providers; (2) to review medical records maintained by providers with respect to services provided to an insured; (3) audit loans made under the loan program; (4) to implement current applicable provisions of the Medicare fraud and abuse program. The Attorney General is required to assist the audit division in enforcement of the fraud and abuse program. Audits performed are at the expense of the Commission.

Clinical Panels: The bill requires the Commission to develop information concerning the best available knowledge about the provision of health care under given circumstances and distribute the knowledge to providers throughout Indiana. The Commission is allowed to establish panels of practitioners from a variety of health care practices to develop the aforementioned information. The Commission is required to establish panels to consider high-cost, high-risk, and high-volume procedures. A panel may do the following: (1) review existing and new practice guidelines developed by nationally recognized organizations, (2) develop new practice guidelines at the direction of the Commission, and (3) make recommendations to the Commission for adoption of best practice guidelines.

Members of a panel who are not state employees are entitled to a minimum salary per diem under IC 4-20-11-2.1(b), currently $50. Members are also entitled to reimbursement for traveling expenses and other expenses actually incurred in connection with the member's duties. Members of a panel who are state employees are entitled to reimbursement for traveling expenses and other expenses actually incurred in connection with the member's duties. Expenses paid to reimburse members are to be paid from the Fund as determined by the Commission.

Primary Care Provider Education Loan Program: The bill allows the Commission to establish a loan program for students who plan to become a primary care provider in an underserved area and meet certain criteria. The Commission is required to provide that a loan and the interest on a loan may be forgiven if the student meets the requirements of the program.

Civil Penalties: The bill disallows a provider from receiving any compensation for referring a patient to a facility in which the provider has a financial interest unless certain criteria are met. The bill allows the Commission to impose a civil penalty on a provider that refers a patient to a facility in which the provider has financial interest and certain criteria are not met. As proposed, the civil penalty may not exceed $15,000. Penalties imposed would be paid into the Fund.

Health Insurance Trust Fund: The bill establishes the Health Insurance Trust Fund. The Fund is to be administered by the Commission. The Fund consists of: (1) revenue provided by statute and money

appropriated by the General Assembly; (2) federal funds; (3) other revenue received by the Commission; and (4) interest accruing from investment of money in the Fund. Money in the Fund does not revert to the state General Fund at the end of a state fiscal year.

The Fund may be used to: (1) pay the expenses of the Commission; (2) make payments for insured services under the Act; and (3) make payments for operating and capital budgets of hospitals. The bill appropriates money to the Fund in an amount necessary to conduct the aforementioned Fund uses.

The bill requires the Commission to enter into appropriate agreements with the Department of State Revenue (DOR) for collection of copayments and health fees imposed on individuals and employers. The DOR is required to prescribe the forms and procedures to be used to make the aforementioned payments.

Employer Health Payments by Governmental Bodies: The bill requires a governmental body to pay to the DOR an amount equal to the amount required to be paid under the Plan by employers for each individual employed for each month or part of a month as an employee by the governmental body. It requires a governmental body to appropriate annually an amount sufficient to pay the aforementioned fees. In addition, a governmental body may make a contribution to the Fund for the benefit of employees of the governmental body who are insureds.

Currently, the state pays approximately $300 M for health care benefits which would be covered under the Plan. In addition, the state is also responsible for costs associated with health care benefits for employees of state educational institutions. The costs for state educational institution health care benefits are currently not known [Note: This fiscal note will be updated when additional information becomes available]. As proposed, the state would no longer be responsible for payment of current health care benefit costs; however, the state as employer would be responsible for fees for employees associated with the Plan.

Department of State Revenue: The DOR would incur significant additional administrative expenses relating to the revision of tax forms, instructions, and computer programs. Under the bill, the DOR is required to: (1) amend tax forms and update computer software to collect the Alcoholic Beverage Tax and Cigarette Tax at the increased rates provided in the bill , (2) collect copayments and health fees imposed on individuals and employers; (3) prescribe forms and procedures to be used to make payments and deposit payments in the Fund; and (4) collect contributions from governmental bodies and deposit those contributions in the Fund. The funds and resources required above could be supplied through a variety of sources, including the following: (1) existing staff and resources not currently being used to capacity; (2) existing staff and resources currently being used in another program; (3) authorized, but vacant, staff positions, including those positions that would need to be reclassified; (4) funds that, otherwise, would be reverted; or (5) new appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon legislative and administrative actions. The January 1, 2007, state vacant position report indicates that the DOR currently has 235 vacant full-time positions.

State Department of Health: The bill requires the ISDH to designate annually the counties, cities, towns, and townships that are underserved by a provider category. In addition, for each provider category, the ISDH is required to rank these areas according to the degree each area is underserved by the provider category.

Explanation of State Revenues: *Cigarette Tax:* This bill will increase Cigarette Tax collections by approximately $98.5 M in FY 2008 and $99.7 M in FY 2009. The bill increases the effective Cigarette Tax rate from $0.555 to $0.755 beginning July 1, 2007. The bill changed the distribution formula to distribute the new revenue to the Health Care Trust Fund as created in the bill. The impact on all funds that are part

of the Cigarette Tax distribution is shown in the table below.

Fund	FY 2008 (in millions)	FY 2009 (in millions)
General Fund	($4.6)	($4.8)
Mental Health Fund	0.0	0.0
Cigarette Tax Fund	(0.4)	(0.4)
Pension Relief Fund	(0.5)	(0.5)
Health Care Trust Fund	104.0	105.4
TOTAL	**98.5**	**99.7**

Alcoholic Beverage Tax: This bill will increase Alcoholic Beverage Tax collections by approximately $89.0 M in FY 2008 and $95.9 M in FY 2009. Due to the timing of Alcoholic Beverage Tax remittance, the estimate for FY 2008 is based on 11 months of collections. The bill increases the Alcoholic Beverage Tax on the following beverages by the following amounts.

Beverage	Current Rate	New Rate
Beer & Hard Cider	$0.115	$0.415
Liquor (and Wine over 21% alcohol)	$2.68	$9.68
Wine	$0.47	$1.67

The bill increases these Alcoholic Beverage Tax rates and requires that the entire amount of the increased rate be distributed to the Health Care Trust Fund. Increasing these rates will cause a decrease in alcohol sales, and therefore there will be a decrease in collections deposited in the other funds receiving distributions of the Alcoholic Beverage Tax. The table below contains the funds affected by the increase in these tax rates.

Funds Receiving Distributions	2008 (in millions)	2009 (in millions)
General Fund	($0.9)	($1.3)
Post War Construction Fund	($1.0)	($1.4)
Enforcement & Administration Fund	($0.1)	($0.2)
Addiction Services Fund	($0.1)	($0.1)
Pension Relief Fund	($0.2)	($0.3)
Wine Grape Market Development Fund	($0.0)	($0.1)
Qualified Health Center Fund (established in the bill)	$91.3	$99.3
TOTAL	$89.0	$95.9

Explanation of Local Expenditures: *Employer Health Payments by Governmental Bodies*: The bill requires a political subdivision to pay to the DOR an amount equal to the amount required to be paid under the Plan by employers for each individual employed for each month or part of a month as an employee by the political subdivision. It requires a political subdivision to appropriate annually an amount sufficient to pay the aforementioned fees. In addition, a political subdivision may make a contribution to the Fund for the benefit of employees of the political subdivision who are insureds. The current cost to provide health care insurance to employees of political subdivisions is not known. Potentially, expenditures for a political subdivision could increase or decrease on the bill. Actual increases or decreases will depend on the cost a political subdivision is currently paying for health insurance and the expenditures which it would be required to pay for employee coverage by the Plan under the bill.

Explanation of Local Revenues: *Alcoholic Beverage Tax*: Fifty-percent of the revenues from the Alcoholic Beverage Tax is required to be set aside for distributions to cities and towns based on population. Therefore, this bill will cause a decrease in the total distributions to cities and towns of approximately $450,000 in FY 2008 and $650,000 in FY 2009.

State Agencies Affected: All.

Local Agencies Affected: All.

Information Sources: Michelle House, Treasurer of State; December 14, 2006 State Revenue Forecast; Kaiser Family Foundation, http://www.kff.org. Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, http://www.cms.hhs.gov/. U.S. Census Bureau, American Community Survey, 2005, http://www.census.gov; Laura Butler, State Department of Personnel; United States Department of Veterans' Affairs, http://www.va.gov/; FSSA Expenditure Forecast, FY 2004-2009.

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